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March 12, 1998

BY HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

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MAR 12 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Oral and Written Ex Parte Presentation -
CC Docket No. 96-45

Dear Ms. Salas:

Puerto Rico Telephone Company ("PRTC") hereby reports an oral and written ex parte presentation in the above-referenced proceeding. The arguments delivered in PRTC's oral ex parte presentation are already reflected in its written filings in this proceeding. As part of its oral presentation, PRTC furnished the attached written handout summarizing information related to the proposed models for universal service support.

PRTC's presentation was made to Chairman Kennard, Commissioner Ness, Commissioner Furchtgott-Roth, Commissioner Powell, and their respective staff members.

Two copies of PRTC's written presentation are submitted with this letter pursuant to Section 1.1206(b)(1) of the Commission's Rules, 47 C.F.R. § 1.1206(b)(1).

Sincerely,

Joaquín A. Márquez

Joaquín A. Márquez

Enclosures

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PUERTO RICO TELEPHONE COMPANY

**UNIVERSAL SERVICE
PRESENTATION**

MARCH 1998

BACKGROUND

- The service penetration rate in Puerto Rico is 76 percent. The national average is 94 percent.
- Affordable telephone service must be available according to needs in Puerto Rico, where the annual per capita income is approximately one-half of the national per capita income.
- PRTC's efforts to provide universal service have been supported with the help of universal service funding and long term support.
- In 1997, PRTC received approximately \$107 million in combined federal support.

PROXY MODEL METHODOLOGY

- As of January 1, 1999, total federal support will be calculated for non-rural LECs using costs estimated by a proxy model.
- The proposed models do not produce reasonable results for Puerto Rico: the Hatfield model results in approximately \$171,000 in federal support, and the BCPM results in slightly over \$9 million in federal support.
- The model outcomes result in respective reductions to one-tenth of the present support (BCPM) and one-thousandth of PRTC's current federal support (Hatfield).
- In addition, PRTC is obligated to contribute approximately \$9 million to the federal fund, completely offsetting any federal support generated by either model.

SOLUTION

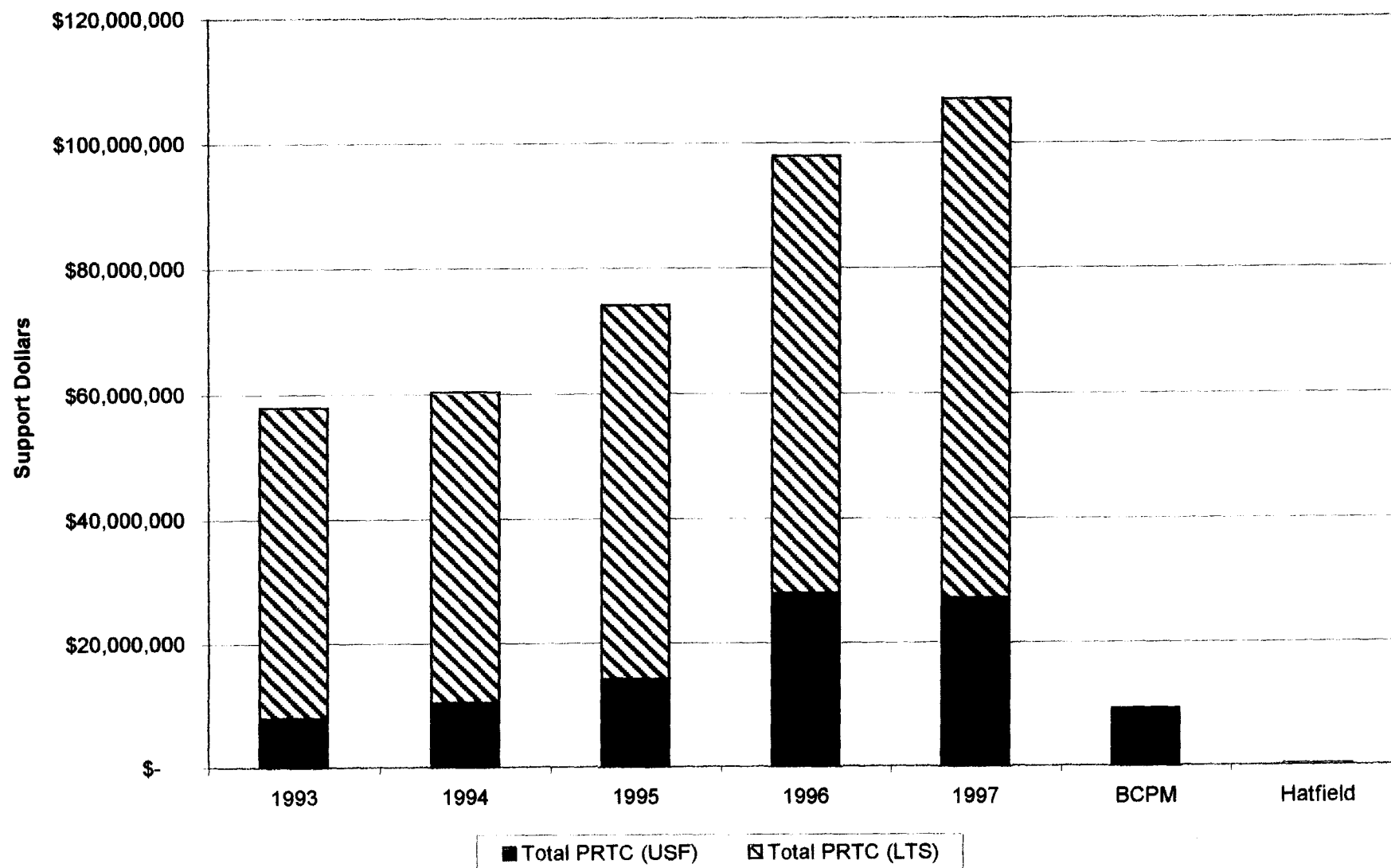
- PRTC should be subject to the same schedule for transition to a proxy model methodology established for rural carriers.
- This solution is consistent with Commission findings and the Communications Act:

The Commission delayed transition for rural carriers "because the cost models in the record of this proceeding produced a higher margin of error for rural carriers." USF Fourth Order on Reconsideration, ¶ 78. **The same is true for PRTC.**

The Commission must ensure affordable universal service for insular areas. Sec. 254(b)(3). This may be done by treating insular and rural carriers similarly. **PRTC serves an insular area.**

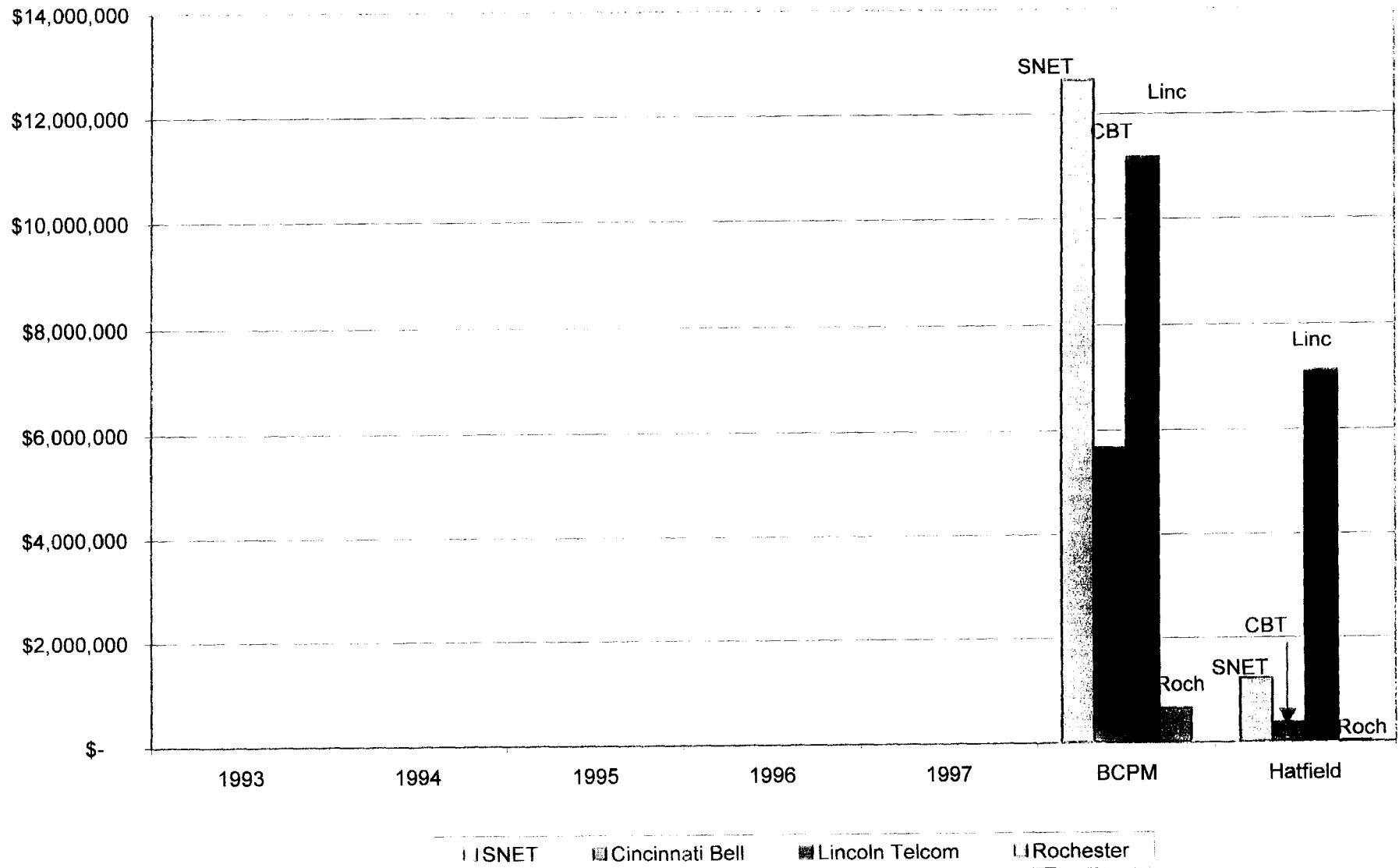
The Commission recognized the possible need to adjust the schedule for non-rural carriers serving insular areas if information for these areas was not included in the economic cost models. USF First Report and Order, ¶ 317. Puerto Rico data was not included in the models until mid-December, 1997. The model results clearly show that the models and the data inputs are deficient in predicting the cost for serving Puerto Rico. **The schedule for non-rural carriers serving Puerto Rico must be adjusted.**

PRTC: USF High Cost Support

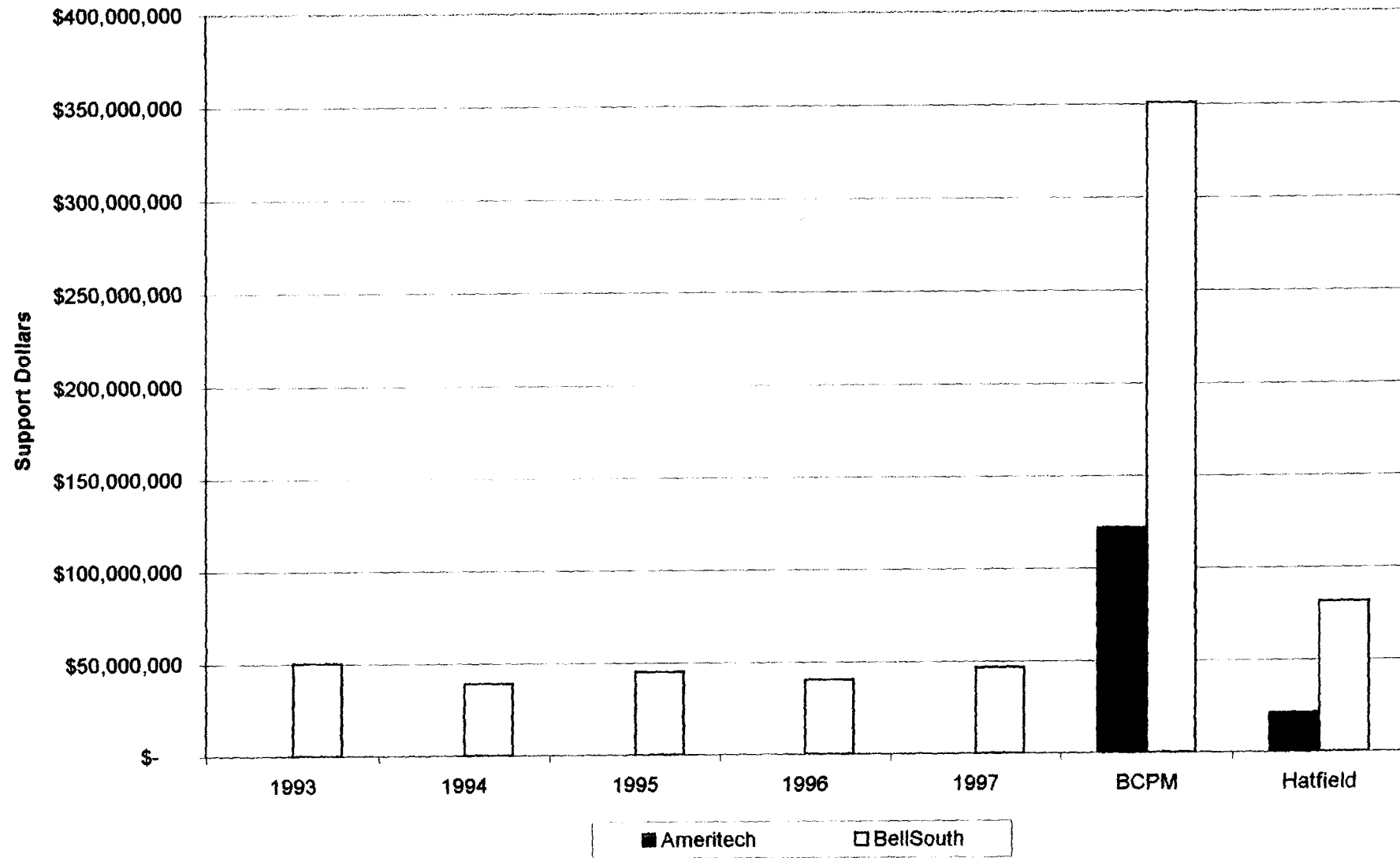


Source: FCC 1996 Monitoring Report, Table 3-14

USF High Cost Support



USF High Cost Support



USF Comparison
History

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
SNET	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,652,850	\$ 1,220,730
Cincinnati Bell	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,680,952	\$ 378,529
Lincoln Telcom	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,183,061	\$ 7,130,118
Rochester	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,025	\$ 20,215

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
Ameritech	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,850,824	\$ 21,165,966
BellSouth	\$ 50,307,450	\$ 39,064,141	\$ 45,035,477	\$ 40,482,465	\$ 46,705,764	\$ 350,758,371	\$ 81,310,307

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
Total PRTC (USF)	\$ 7,865,549	\$ 10,351,906	\$ 14,104,783	\$ 27,838,000	\$ 27,014,415	\$ 9,263,835	\$ 171,255
Total PRTC (LTS)	\$ 50,000,000	\$ 50,000,000	\$ 60,000,000	\$ 70,000,000	\$ 80,000,000	\$ -	\$ -

USF Contribution
to Federal SF
 9,000,000
 9,000,000
 8,828,745
 8,828,745

Proxy Model Data: Hatfield 5.0
BCPM 3.0

Historical USF Data: FCC Monitoring Report, Table 3.14

Universal Service
Fourth Order on Reconsideration
Released December 30, 1997

Long Term Support (LTS)

Excerpts from Para 74

- * Commission reiterates that rural carriers will continue to retain many features of current support mechanism.
- * This will allow sufficient time to adjust to any changes in universal service support, particularly a move to forward looking economic cost models.
- * Continued LTS for rural carriers serves the public interest by reducing CCL charges assessed to IXC's and thereby facilitating interexchange service in high cost areas consistent with the express goals of section 254.

Without LTS, PRTC CCL rate could exceed \$0.05 per MOU in year 2000

Excerpts from Para 78

- * Cost models in the record of this proceeding produced a higher margin of error for rural carriers. The Commission concluded that rural carriers should not begin their transition to use forward looking economic cost mechanism when the non-rural incumbent LECs transition to their new mechanism in 1999.
- * We cannot ensure that rural carriers would receive appropriate levels of support if we allowed them to receive support calculated using the forward looking economic cost for non-rural carriers.